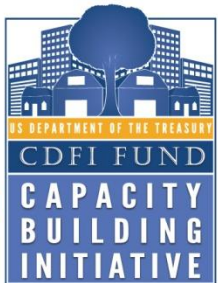




Mind the Gap: Credit Enhancements for Lending to Agricultural Entrepreneurs

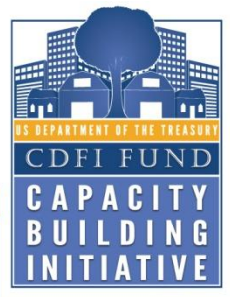
Presented by Scott Marlow

May 29, 2012



Introduction

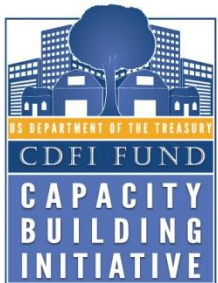
- CDFI Fund's Capacity Building Initiative
 - Financing Healthy Food Options
 - Workshops
 - Technical Assistance – individual and group
 - Resource Bank



Today's Webinar Topic

Mind the Gap: Credit Enhancements for Lending to Agricultural Entrepreneurs

- Why?
 - Understand the credit gap facing many agricultural entrepreneurs
 - Learn about programs and forms of credit enhancements that can assist entrepreneurs



Presenter

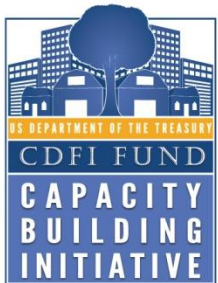


Scott Marlow

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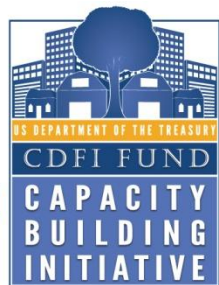


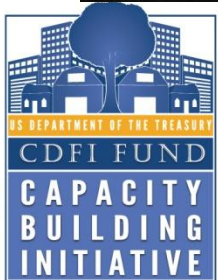


Mind the Gap: Credit Enhancements for Lending to Agricultural Entrepreneurs

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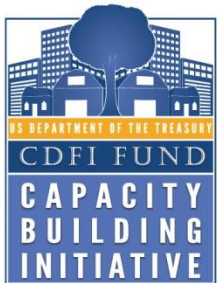




The Rural Advancement Foundation International-USA
919.542.1396 www.rafiusa.org

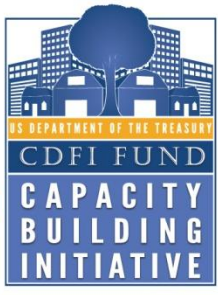
Today's Discussion

- Risk and risk management in agriculture, and how it effects credit access.
- Federal programs that can be used to further mitigate risk through grants, easements or guarantees.
- Specific examples from conservation programs.
- Overview of USDA lending programs.



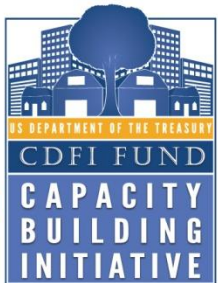
Why are we having this discussion?

- US agricultural credit is approximately \$240B/year.
- USDA Farm Service Agency (FSA) lending– specifically targeting low-wealth communities – is \$4.8B / year.
- FSA provides both direct lending and guarantees for private lenders.
 - Farm Credit (\$174B) is specifically chartered for lending to agriculture.



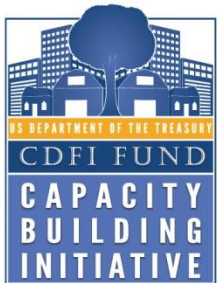
Why are we having this discussion?

- Financial infrastructure creates a gap in risk between large-scale industrial agriculture and small-scale or entrepreneurial agriculture.
- Programs are based on wholesale, conventional prices, leaving behind anyone who sells for more than that price.
- With the economic crisis, lenders are increasingly risk averse, driving credit toward low risk.
- Small-scale and underserved farmers likely to use credit cards for operating credit.



Agricultural Credit

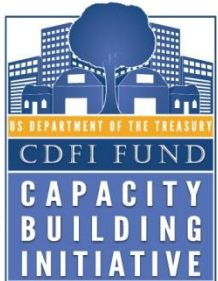
- Separate ownership and operating loans.
- Ownership and operating loans are collateralized differently.
- In general larger operations will have more operating credit, smaller will have more ownership credit.
- Operating expenses will differ based on crop costs, duration of production cycle.



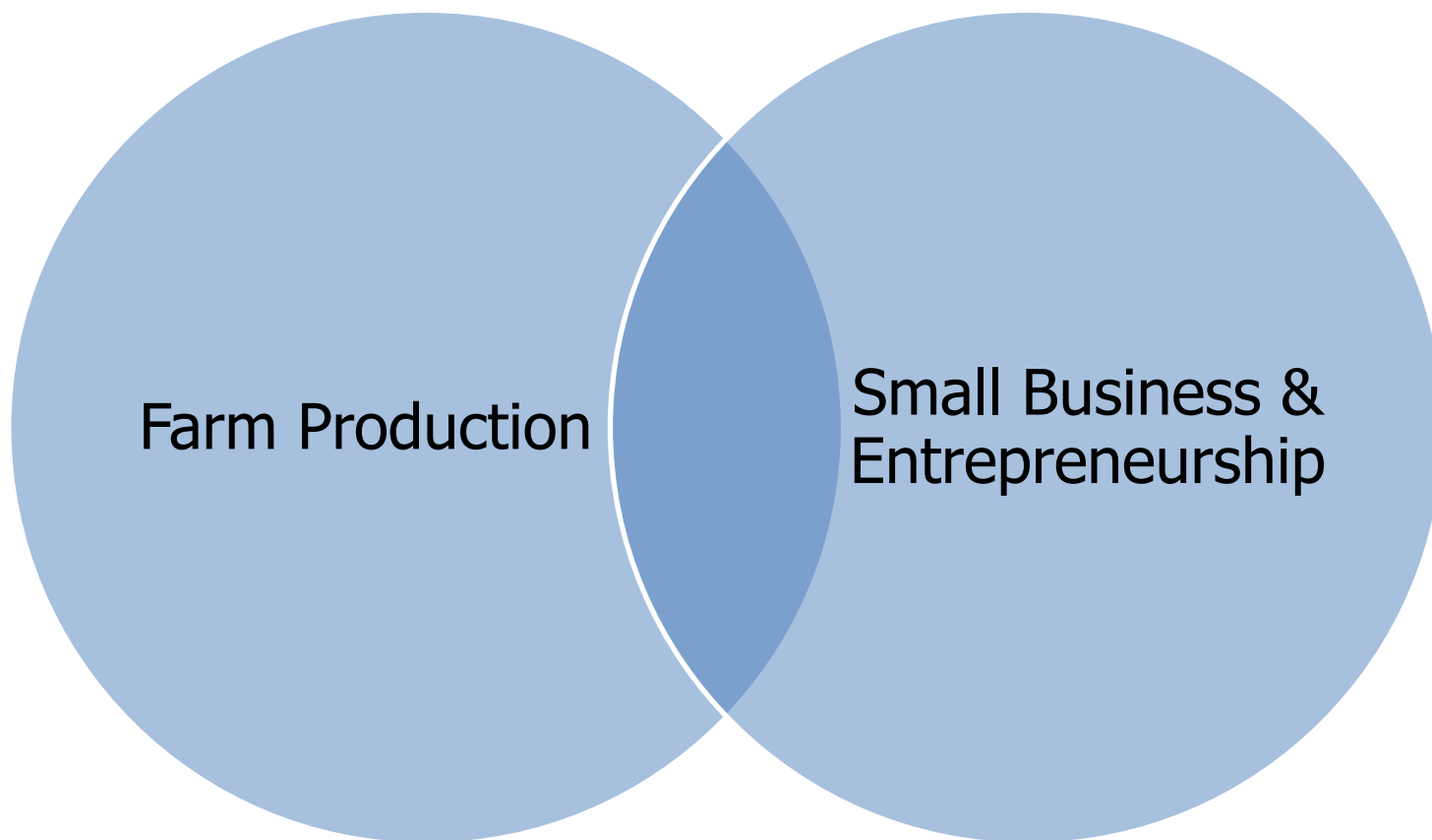
Many of the same issues addressed by CDFIs are also true in agricultural lending



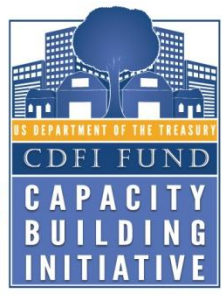
- Under-served communities have had significant difficulty in accessing affordable and appropriate credit, often due to historic patterns of discrimination and wealth concentration.
- Experience in both the challenges and rewards of addressing issues of underserved populations hold true.



Gap in Credit Access

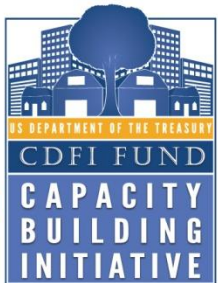


Agricultural entrepreneurship is underserved by both agriculture and small business lending.

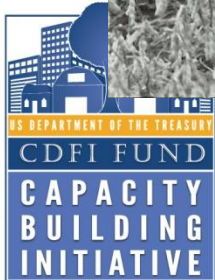


Farm Entrepreneurship

- Emerging markets for local, sustainable, organic.
- Fastest growing segment of agriculture.
- Retains value in local community.
- Poorly served by federal programs, so poor participation.



Understanding Agricultural Risk

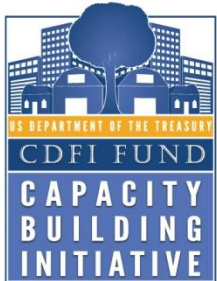


Understanding Agricultural Risk

Commodity agriculture has an extensive 'safety net'



- Crop insurance.
- Commodities programs.
- Disaster assistance programs.
- Research and documentation.
- Assures up to 95% of anticipated income.

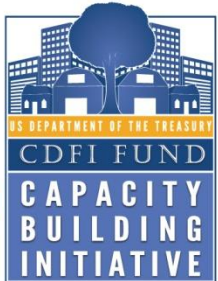


Understanding Agricultural Risk

Commodity agriculture has an extensive 'safety net.'



- Crop insurance insures up to 80% of anticipated income with a 60% federal premium subsidy.
- Revenue crop insurance covers combination of yield and price losses.
- Disaster programs can provide increased benefits to 95%.
- Commodity programs address losses due to price.

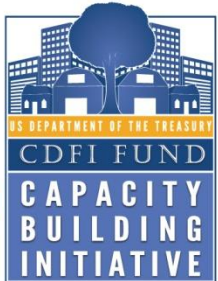


Understanding Agricultural Risk

Commodity agriculture has an extensive 'safety net'



- Programs are assured income that can be borrowed against.
- Relatively low interest rates.
- Low documentation requirements.
- Crop as collateral.
- Extensive history and familiarity.

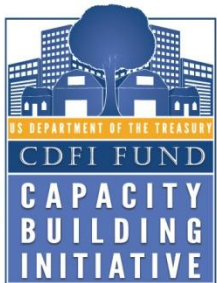


Understanding Agricultural Risk

Entrepreneurs step off the safety net cliff.



- Direct market producers may receive 8x conventional price.
- Little coverage for minor specialty crops.
- Little coverage for livestock.
- No documentation for emerging markets.

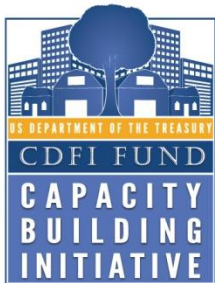


Understanding Agricultural Risk

Entrepreneurs step off the safety net cliff.



- Beginning farmers.
- Transitioning farmers finding new markets.
- Mid-scale farms scaling up what was pioneered by small farms.
- On-farm processing rather than just production.
- Overlaid with continuing issues of underserved communities.

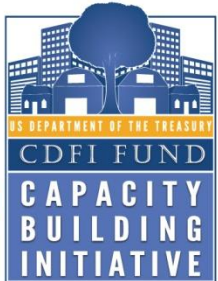


Entrepreneurial Farm Credit

Separating the enterprise into buckets.



- Crop / field
- Processing
- Marketing
- Generational transition

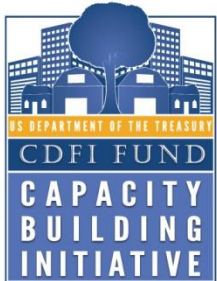


Entrepreneurial Farm Credit

Separating the enterprise into buckets.



- Different buckets will have different credit needs and opportunities.
- Separate return on investment for individual enterprises.
- Home mortgages.
- Small business loans.
- FSA lending.

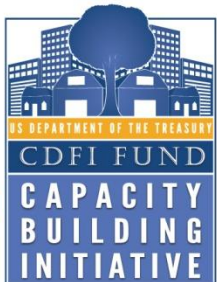


Federal Programs

Creative Risk Management.



- Points of protection.
- Assured income.
- Conservation programs.
- Commodity programs.
- Rural Development Loans and Guarantees.

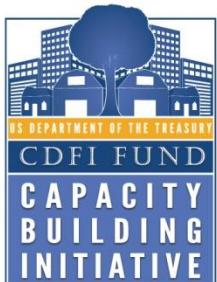


Federal Programs

Creative Risk Management.



- Putting together a package.
- Build relationships and collaboration.
- Maximize the chance of success.

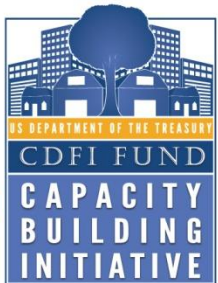


Federal Programs

Conservation Programs - www.nrcs.usda.gov

Conservation Reserve

- Removes land from production
- Forestry which can be harvested later
- Average monthly payments between \$35 and \$122 per acre in NC

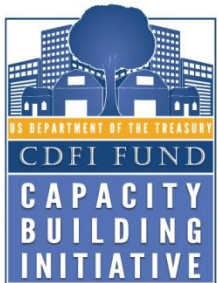


Federal Programs

Conservation Programs - www.nrcs.usda.gov

Environmental Quality Incentives Program (EQIP)

- Cost share for enhancements
- Higher percentage for beginning / socially disadvantaged.
- Can create equity, e.g. high tunnel program.

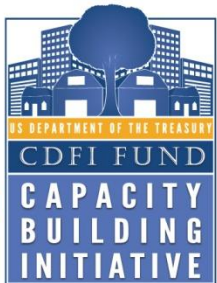


Federal Programs

Conservation Programs - www.nrcs.usda.gov

Conservation Stewardship Program

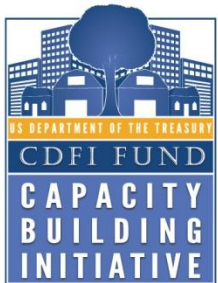
- Conservation on working lands.
- Incentive payment for existing and new practices.
- Farm Bill determined.



Federal Programs

Conservation Programs - www.nrcs.usda.gov

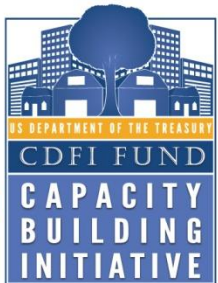
- Place 50 acres in a program with payments of \$60 / acre for 5 years.
- \$3,000/year annual payment.
- \$250 / month.
- Vehicle Loan of \$13,000 for 60 months at 4.75%.



Federal Programs

Crop Insurance - www.rma.usda.gov

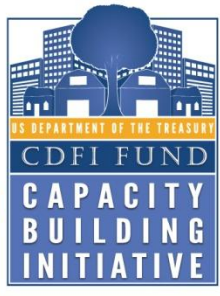
- Individual crop programs
- Adjusted Gross Revenue – Lite
 - 5 year average gross
 - Adjusted for post-harvest
 - 80% coverage
 - Diversification benefit.



Federal Programs

Farm Service Agency Loan Programs www.fsa.usda.gov

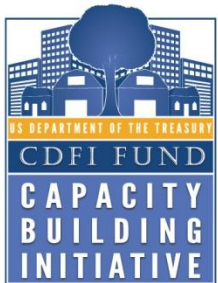
- Down Payment Loan Program (1.5%).
- Beginning Farmer Loan Program.
- Socially Disadvantaged Applicant (SDA) set-aside.
- Direct Farm Ownership Loans (3.5%).
- Emergency loans (3.75%).
- New micro-loan program.



Federal Programs

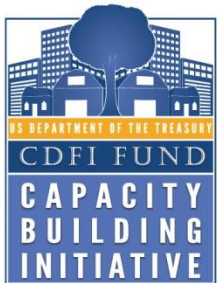
Farm Service Agency Loan Programs www.fsa.usda.gov

- 4 CDFIs have become FSA guaranteed lenders
- FSA direct loans can finance a portion of the credit needs, and can be subordinated to private loans.



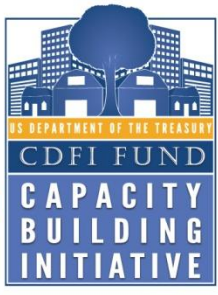
Options for CDFIs

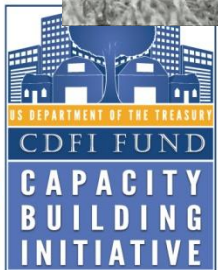
- Before moving into agricultural lending, it is important to identify expertise in both production and financial infrastructure for risk mitigation.
- CDFIs can provide an important role bringing together multiple service providers.
- CDFIs bring important skills that directly apply to the credit gap in agriculture.



Resources

- The Farmer Lender Project: Strategies to Sustain Agriculture and Enhance Rural Development in North Carolina
- The Farmers Guide to Agricultural Credit
- The Farmers Guide to the Development of New Farm Enterprises
- www.rafiusa.org/pubs/puboverview.html
- Farm Credit Field Guide to the New American Foodshed
<http://foodshedguide.org/>

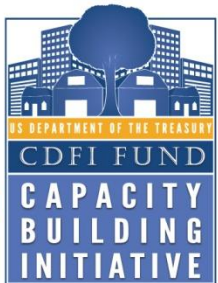




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Additional Resources



Financing Healthy Food Options Resource Bank

http://www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp



The screenshot shows a web browser window with the address bar displaying www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp. The page features a blue sidebar with navigation links: WHO WE ARE, WHAT WE DO, IMPACT WE MAKE, NEWS & EVENTS, and HOW TO APPLY. The main content area has a yellow header with the text "COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND" and "UNITED STATES DEPARTMENT OF THE TREASURY". Below this is a section titled "Financing Healthy Food Options Resource Bank" with three sub-sections: I. Training Curriculum, II. Training Webinars, and III. Additional Resources. Each sub-section contains a list of links to various resources. A fourth sub-section, IV. Food Desert Mapping Tools, is also present. On the left side of the main content area, there is a circular logo for the CDFI Fund and a yellow banner that reads "The CDFI Fund Has Moved".

CDFI Fund - U.S. Treasury - x

www.cdfifund.gov/what_we_do/FinancingHealthyFoodOptionsResourceBank.asp

- WHO WE ARE
- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

Financing Healthy Food Options Resource Bank

I. Training Curriculum

- [Food Systems Overview](#)
- [Healthy Food Retail Financing](#)
- [Financial Services for Mid-Tier Food Chain Enterprises](#)
- [NMTC & Urban Supermarkets](#)
- [Understanding the Grocery Industry](#)
- [Underwriting Supermarkets & Grocery Stores](#)
- [Mid-Tier Food Chain Enterprises Overview & Underwriting](#)
- [Capitalizing Healthy Food Retail Initiatives](#)
- [Identifying Optimal Areas for Supermarket Development](#)
- [Understanding the Food Production Sector](#)
- [Credit Skills for Lending to the Food Production Sector](#)

II. Training Webinars

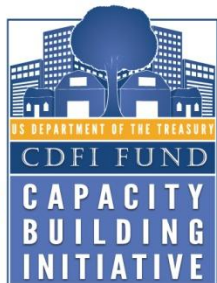
III. Additional Resources

- [Searching for Markets: The Geography of Inequitable Access to Healthy and Affordable Food](#)
 - [Executive Summary](#)
 - [Full Report](#)
- [Financial Resources Catalogue](#)

IV. Food Desert Mapping Tools

- [USDA Food Desert Locator](#)
- [PolicyMap](#)

The CDFI Fund Has Moved



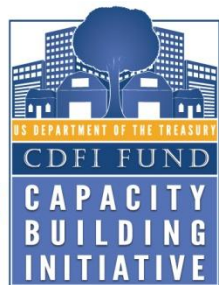
Financing Healthy Food Options Webinar Archive

http://www.cdfifund.gov/what_we_do/FHFOResourceBankWebinars.asp



The screenshot shows a web browser window with the address bar displaying www.cdfifund.gov/what_we_do/FHFOResourceBankWebinars.asp. The page header includes the CDFI Fund logo and navigation links: WHO WE ARE, WHAT WE DO, IMPACT WE MAKE, NEWS & EVENTS, and HOW TO APPLY. The main content area is titled "COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND" and "UNITED STATES DEPARTMENT OF THE TREASURY". Below this, the section "Financing Healthy Food Options Resource Bank: Webinars" is highlighted. A note states: "Relevant Training Curriculum chapters can be found on the Resource Bank's [main page](#)." The page lists four numbered sections of webinars, each with a list of resources:

- 1. PolicyMap and Using Limited Supermarket Analysis in Your Target Market**
 - [Webinar 1 Presenter Biography](#)
 - [Webinar 1 Accompanying Presentation](#)
- 2. Healthy Food Options Program Design and Social Impact Measurement**
 - [Webinar 2 Presenters Biographies](#)
 - [Webinar 2 Accompanying Presentation](#)
 - [Sample Retail Loan Pre-Application Design](#)
 - [Sample Retail Loan Application Design](#)
 - [Sample Retail Loan Template for Data Collection \(.xls\)](#)
 - [The Grocery Gap: Who Has Access to Healthy Food and Why it Matters](#) (Food Trust and PolicyLink)
- 3. Green for Greens**
 - [Webinar 3 Presenters Biographies](#)
 - [Webinar 3 Accompanying Presentation](#)
 - [Green for Greens: Finding Public Financing for Healthy Food Retail](#) (Public Health Law & Policy)
 - [Getting to Grocery: A Toolkit for Attracting Food Retail to Underserved Neighborhoods](#) (Public Health Law & Policy)
- 4. New American Foodshed**
 - [Webinar 4 Presenters Biographies](#)
 - [Webinar 4 Accompanying Presentation](#)
 - [Field Guide to the New American Foodshed](#)
 - [Field Guide: One Page Planning](#)
 - [National Good Food Network](#)
 - [Farm Credit Council](#)



Final TA Workshops

Farms & Food Production

Boston, MA

May 31st and June 1st

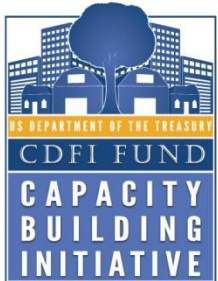
[Link](#) to Training Information & Registration

Food Retailers

Seattle, WA

June 28th and 29th

[Link](#) to Training Information & Registration



Upcoming TA Webinars

How to Access Financing Healthy Foods TA

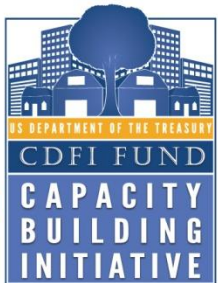
•Wednesday, June 6, 2pm EDT

How to Effectively Underwrite Small and Emerging Farms

•Wednesday, June 27, 2pm EDT

MORE WEBINARS TO COME – STAY TUNED!

Visit www.opportunityfinance.net/FHFOwebinars/ to register for one or all of the TA webinars



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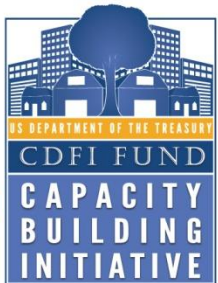
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